

Message Text

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TO AMEMBASSY JAKARTA IMMEDIATE

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EXDIS

C O R R E C T E D C O P Y ((PARA FIVE LINE TEN OMITTED))

E.O. 11652: GDS

TAGS: ENGR

SUBJECT: COMPANY OIL PROCEDURES IN INDONESIA

REF: JAKARTA 11953

1. GENERAL APPROACH YOU TOOK WITH SADLI THAT TRADITIONALLY UNITED STATES GOVERNMENT DOES NOT WISH TO INVOLVE ITSELF IN CONTRACTUAL NEGOTIATIONS BETWEEN INVESTORS AND HOST GOVERNMENTS IS CORRECT. YOU MAY WISH TO REMAKE THIS POINT IN YOUR CONVERSATIONS WITH PRESIDENT SUHARTO.

2. WE ARE CERTAINLY SENSITIVE TO INDONESIA'S NEED FOR GREATER REVENUE AND, IN FACT, HAVE OURSELVES MADE CONTINUED
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EFFORTS TO MAINTAIN OUR BILATERAL AND MULTILATERAL ASSIS-

TANCE FOR INDONESIA DESPITE THE COUNTRY'S RISING OIL REVENUES. WE BELIEVE, HOWEVER, THAT ANY UNILATERAL INDONESIAN ACTION AT THIS TIME POSES REAL RISK WHICH GOI SHOULD CAREFULLY CONSIDER. TIMING OF PROPOSAL IS PARTICULARLY AWKWARD AND COULD STRENGTHEN POSITION OF THOSE WHO ARE RESISTING OUR EFFORTS FOR CONTINUED ASSISTANCE. (FYI: THIS YEAR'S AID LEGISLATION IS JUST ABOUT TO MOVE INTO THE APPROPRIATION PROCESS. SOUNDINGS MADE THIS WEEK ON THE HILL INDICATE THAT WE MAY HAVE DIFFICULT TIME INDEED BEFORE PASSMAN COMMITTEE TO MAINTAIN PROPOSED

INDONESIAN PACKAGE INTACT. WE ARE MAKING ASSIDUOUS EFFORTS TO COUNTERACT THIS TREND AND ARE CONCERNED ADJUSTED OIL-TAKE PROPOSAL MAY SEVERELY UNDERCUT OUR POSITION.) YOU MAY ALSO WISH TO MENTION THAT ANY UNILATERAL CHANGE IN INDONESIAN OIL CONTRACTS COULD SET BACK ATTEMPTS IN CONGRESS TO REMOVE GSP EXCLUSION WHICH, GIVEN OPEC PRICE RISE, WILL BE DIFFICULT SLEDDING IN ANY CASE.

3. IN ADDITION, YOU SHOULD POINT OUT THAT INDONESIAN ACTION AGAINST CALTEX AND STANVACE WOULD HAVE ADVERSE PUBLIC IMPACT, PARTICULARLY COMING ON HEELS OF DECISION BY OPEC THIS WEEK TO INCREASE OIL PRICES. FACT THAT INDONESIA DOES NOT RAISE ITS PRICES BY FULL AMOUNT AUTHORIZED BY OPEC TO BOLSTER ITS MARKET POSITION WILL BE LOST IN CRITICAL PUBLIC REACTION TO OPEC PRICE RISE.

4. ASIDE FROM THESE SPECIFIC ISSUES, WHICH RELATE PRIMARILY TO THE TIMING OF INDONESIAN MOVE, YOU MAY WISH ALSO TO MAKE POINT THAT ANY UNILATERAL CHANGE OF CONTRACT CAN ONLY CLOUD FUTURE INVESTMENT CLIMATE. IN PARTICULAR, FOREIGN FIRMS EYEING HIGH RISK OIL VENTURES IN INDONESIA MAY BE PARTICULARLY ALARMED BY A UNILATERAL MOVE, SHOULD CONTRARY TO OUR HOPE, THERE BE ONE. THIS WILL BE COUNTER PRODUCTIVE TO INDONESIAN HOPES TO MAINTAIN LARGE FLOW OF CAPITAL INTO OIL AND GAS EXPLORATION AND PRODUCTION. YOU WERE RIGHT TO STRESS, AND SHOULD REITERATE, THAT USG ATTACHES GREAT IMPORTANCE TO

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OBSERVANCE BY ALL PARTIES OF INTERNATIONAL INVESTMENT AGREEMENTS. AS SECRETARY KISSINGER STATED SEPTEMBER 1 TO UNGA: "GOVERNMENTS AND ENTERPRISES MUST BOTH RESPECT THE CONTRACTUAL OBLIGATIONS THEY FREELY UNDERTAKE." AT THE SAME TIME, WE RECOGNIZE THAT THE PARTIES TO A CONTRACT ARE FREE TO RENEGOTIATE ITS TERMS IN LIGHT OF CHANGING CIRCUMSTANCES IF THEY MUTUALLY SO DECIDE.

5. IN SHORT, WE WOULD HOPE THAT GOI WOULD VERY CAUTIOUSLY CONSIDER LONG VERSUS SHORT TERM TRADE OFFS INVOLVED HERE. IF AFTER MAKING SUCH AN EVALUATION THE GOI STILL FEELS IT NECESSARY TO GO FORWARD WITH A PROPOSED ADJUSTMENT OF THE AGREEMENTS WITH THE OIL COMPANIES, WE WOULD HOPE THAT THEY WOULD DEAL WITH THE COMPANIES IN A FAIR AND REASONABLE MANNER, AVOIDING ANY UNILATERAL IMPOSITION OF ALTERED CONTRACT TERMS AND MAKING EVERY EFFORT TO FIND A WAY, WITH THE AID OF THE COMPANIES TO DEAL WITH INDONESIA'S FINANCIAL PROBLEMS, I.E. INDONESIA MIGHT DISCUSS A RANGE OF POSSIBILITIES WITH THE COMPANIES, INCLUDING PRE-PAYMENTS AND LOANS. KISSINGER

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